

Message Text

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ACTION XMB-04

INFO OCT-01 NEA-10 ISO-00 EB-08 TRSE-00 AID-05 /028 W
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R 191215Z AUG 77
FM AMEMBASSY RABAT
TO SECSTATE WASHDC 2888
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DEPARTMENT ALSO PASS EXIMBANK FOR VICE PRESIDENT CLAYTON NORRIS

USDOC FOR CAGNE/HALE

E.O. 11652: N/A
TAGS: EFIN MO
SUBJECT: NADOR STEEL PROJECT: SONASID ANXIOUS TO LEARN EXIM'S
INTENTIONS

REF: STATE 193309

SUMMARY: SONASID DIRECTOR GENERAL MOULINE INFORMED
EMBASSY THAT ALL BIDDERS ON ROD MILL (LOT A2) EXCEPT
US SUPPLIER (US STEEL) HAD OBTAINED EXPORT CREDIT
COMMITMENTS FROM THEIR GOVERNMENT'S EXPORT FINANCING
INSTITUTIONS. ALL BIDS APPROXIMATELY TECHNICALLY
EQUIVALENT. SINCE FINANCIAL DOSSIERS OF BIDE TO BE OPENED
SEPTEMBER 20, LACK OF TIMELY EXIM COMMITMENT MAY PLACE US STEEL
AT COMPETITIVE DISADVANTAGE ON BASIS OF FINANCING.
END SUMMARY.

1. DURING COURTESY CALL BY NEW E/C COUNSELOR ON SONASID
DIRECTOR GENERAL LARBI MOULINE, LATTER EXPRESSED
HOPE THAT EXIM BANK WOULD BE ABLE TO TAKE A FAVORABLE
POSITION WITH RESPECT TO FINANCING LOT A2 (ROD MILL) OF
PROJECT AT EARLIEST OPPORTUNITY.
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2. MOULINE SAID THAT BIDS WERE TECHNICALLY EQUIVALENT
AND THAT CONTEST WILL BE DECIDED ESSENTIALLY ON THE
COMMERCIAL AND FINANCIAL PACKAGE THAT ACCOMPANIES EACH
BID. HE STRESSED THAT ALL BUT THE US BID IS NOW COVERED
BY A FINANCING PACKAGE SUPPORTED BY THE OFFICIAL LENDING
AGENCY OF EACH BIDDER'S GOVERNMENT. WHILE US BIDDER

(USS ENGINEERS AND CONSULTANTS, INC.) COULD OF COURSE ATTEMPT VARIOUS FORMS OF COMMERCIAL FINANCING FAILING A FAVORABLE EXIM RULING, MOULINE BELIEVED THAT RECOURSE TO ALTERNATIVE FINANCING ARRANGEMENTS COULD JEOPARDIZE USS'S CHANGES OF BECOMING THE SUCCESSFUL BIDDER.

3. IN SUBSEQUENT DISCUSSION OF IBRD CONSIDERATION OF PROJECT, MOULINE NOTED THAT CONCERN FOR ECONOMIC RATE OF RETURN (ERR) WAS KEY PROBLEM HOLDING UP A FAVORABLE IBRD EVALUATION, ORIGINAL IBRD ESTIMATE HAD DEVELOPED AN ERR OF 8.5 PER CENT FOR PROJECT AS A WHOLE. SUBSEQUENT JOINT IBRD/SONASID REVIEW OF THE ANALYSIS, TOGETHER WITH EXTRAPOLATION OF PRODUCTION UNITS' ERR AS OPPOSED TO SONASID PROJECT IN TOTO (INCLUDING ITS LESS VIABLE INFRASTRUCTURAL COMPONENTS) HAD BROUGHT ERR TO 9.5 PER CENT. LATER DISCUSSIONS OF PROJECT IN TOTO HAD AGAIN CAUSED IBRD TO COME TO AN 8 PER CENT FIGURE, BUT NOW UNDERWAY WERE FURTHER REVISIONS INCLINING THE EVALUATION TOWARD A RATE SOMEWHERE BETWEEN 8.5 AND 9 PER CENT. MOULINE FELT THAT ANY ERR IN THIS RANGE WAS RESPECTABLE FIGURE FOR A PROJECT AS BROADLY BASED AS SONASID AND SAID HE KNEW OF NO OTHER INTEGRATED STEEL PROJECT ANYWHERE IN THE WORLD THAT COULD DEMONSTRATE AN ERR IN EXCESS OF 8.5 PER CENT. IBRD WAS REPORTEDLY TAKING THESE POINTS INTO CONSIDERATION IN ITS PRESENT REVIEW OF PROJECT.

4. MOULINE THEN UNDERTOOK TO REVIEW FUNDAMENTAL UNCLASSIFIED

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IMPORTANCE OF SONASID PROJECT AS A CONTRIBUTOR TO LONGER RANGE GROWTH OF MOROCCAN ECONOMY, CITING PROGRESSIVELY INCREASING IMPORT SUBSTITUTION CAPABILITY, USE OF LOCAL IRON ORE DEPOSITS HAVING A 30-YEAR PROVEN RESERVE BASE, NATIONAL INCOME ENHANCEMENT THROUGH ITS ABILITY TO GENERATE SECONDARY INDUSTRIES HENCE EMPLOYMENT, ETC., ETC. MOULINE FELT THAT EXIM SHOULD TAKE INTO ACCOUNT THESE LARGER INTENDED BENEFITS, AND NOT RELY SOLELY ON IBRD CRITERIA THAT WERE APPLICABLE, HE CONTENTED, FOR ALL PROJECTS IRRESPECTIVE OF SIZE AND MACRO-ECONOMIC FUNCTION.

6. MOULINE ADDED THAT AT PRESENT SONASID NEEDED EXIM'S PRELIMINARY COMMITMENT AS A BASIS TO OPEN THE COMMERCIAL AND FINANCIAL DOSSIERS, WHICH HE SAID WOULD BEGIN ON SEPTEMBER 20. HE WAS THEREFORE ANXIOUS THAT THE USS FINANCING PACKAGE BE AVAILABLE SOMEWHAT BEFORE THAT DATE. THE TECHNICAL DOSSIERS, HOWEVER, WERE NOW ALMOST COMPLETE AND PRESENTED NO PROBLEM.

6. IN RELATED EARLIER DEVELOPMENT, USS REPRESENTATIVES CALLED ON AMBASSADOR TO REPORT STATUS OF THEIR LATEST TECHNICAL DISCUSSIONS WITH SONASID. NOTING THAT ALTHOUGH SONASID STILL NEEDED NUMBER OF

CLARIFICATIONS TO COMPLETE USS TECHNICAL DOSSIER, THEY FELT THEY HAD REASONABLY GOOD CHANCE OF WINNING BID, FROM TECHNICAL STANDPOINT. USS REPS CONCLUDED THAT THEY WOULD MAKE STRONG EFFORT TO COME UP WITH A COMPETITIVE FINANCING PACKAGE BEFORE RETURNING TO RABAT IN EARLY SEPTEMBER FOR FINAL DISCUSSIONS WITH SONASID, BUT STRESSED THAT EXIM'S POSITION WOULD BE A CENTRAL FACTOR IN BEING ABLE TO DO SO.

7. COMMENT. IN VIEW OF SONASID'S DETERMINATION TO PROCEED WITH LOT A2 AT EARLIEST OPPORTUNITY, EMBASSY BELIEVES THAT WASHINGTON AGENCIES SHOULD MAKE EVERY EFFORT TO PLACE US BIDDER IN BEST POSSIBLE COMPETITIVE POSITION WELL IN TIME FOR SEPTEMBER 20 REVIEW OF COMMERCIAL AND FINANCIAL DOSSIERS. MAGNITUDE OF OVERALL UNCLASSIFIED

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PROJECT, UNREMITTING GOM COMMITMENT TO ASSURE ITS REALIZATION, AND POSSIBILITY OF IMPROVED PROSPECTS FOR US BIDDERS ON SUBSEQUENT PORTIONS OF PROJECT WERE A US FIRM TO BE AWARDED FIRST MAJOR LOT, ARGUES FURTHER FOR MAKING PRESENT SITUATION AS FAVORABLE AS POSSIBLE FOR USS.ANDERSON

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